



ALBION PUBLIC SCHOOLS

FINANCIAL STATEMENTS

For The Year Ended June 30, 2007



REHMANN ROBSON

Certified Public Accountants

ALBION PUBLIC SCHOOLS

For the Year Ended June 30, 2007

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INDEPENDENT AUDITORS' REPORT

November 13, 2007

Board of Education
Albion Public Schools
Albion, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **ALBION PUBLIC SCHOOLS**, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of Albion Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Albion Public Schools as of June 30, 2007, and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2007, on our consideration of Albion Public Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Albion Public School's basic financial statements. The combining financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Albion Public Schools. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Albion Public Schools. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION and ANALYSIS

Management's Discussion and Analysis

This section of Albion Public Schools' annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2007. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Albion Public Schools financially as a whole. The government-wide financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the government-wide financial statements by providing information about the School District's most significant funds – the General Fund and the Capital Projects Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary assets and liabilities, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A)
(Required Supplemental information)

Basic Financial Statements

Government-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

Supplemental Information

Reporting the School District as a Whole – Government-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, support services, community services, athletics, maintenance and food service. Property taxes, unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the School District's Most Significant Fund – Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by state law and by bond covenants. However, the School District established many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and statement of activities) and governmental funds in reconciliation.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary assets and liabilities. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District’s net assets as of June 30, 2006 and 2007.

Table I

	<u>Governmental Activities</u>	
	2007	2006
	<u>(in millions)</u>	
Assets		
Current And other Assets	\$ 5.0	4.7
Capital assets	10.3	10.0
Total Assets	15.3	14.7
Liabilities		
Current liabilities	1.3	1.7
Long-term liabilities	8.5	8.4
Total Liabilities	9.8	10.1
Net Assets		
Invested in capital assets – Net of related debt	2.1	1.9
Restricted	0.1	0.1
Unrestricted	3.2	2.6
Total net Assets	\$ 5.4	\$ 4.6

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District’s governmental activities is discussed below. The School District’s net assets were \$5.4 million at June 30, 2007. The total capital assets, net of related debt, totaling \$2.1 million, compares the original cost, less depreciation of the School District’s capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets, in the amount of \$0.1 million, are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District’s ability to use those net assets for day-to-day operations. The remaining amount of net assets, \$3.2 million, was unrestricted.

The \$3.2 million in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal year 2007.

Table 2

	Governmental Activities	
	2007	2006
	(in millions)	
Revenue		
Program revenue:		
Charges for services	\$ 0.1	\$ 0.1
Operating grants	3.6	4.0
General Revenue:		
Property taxes	2.2	2.2
State foundation allowance	8.4	8.6
Other	<u>0.2</u>	<u>0.2</u>
Total Revenue	14.5	15.1
Functions/Program Expenses		
Instruction	7.6	8.5
Support Services	5.0	5.8
Food Services	0.5	0.6
Athletics	0.3	0.3
Interest on long-term debt	0.3	0.3
Depreciation (unallocated)	<u>0.6</u>	<u>0.5</u>
Total expenses	14.3	16.0
Increase (Decrease) in Net Assets	<u>\$ 0.2</u>	<u>\$ (0.9)</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$14.3 million. Certain activities were partially funded from those who benefited from the programs (\$0.1 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$3.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.2 million in taxes, \$8.4 million in state foundation allowance, and with other revenues, i.e., interest and general entitlements.

The School District's net assets remained stable with a modest increase of \$0.2 million. The Board of Education decided to use non-voted Energy bonds to finance the repair/replacement of roofs at Harrington Elementary School and Albion High School.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted state aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with state-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$3.5 million, which is an increase of \$0.4 million from last year. The primary reasons for the increase are as follows:

- Proceeds from non-voted Energy Bonds
- Froze some non-instructional spending at midyear
- Reduced Staff

General Fund balance is available to fund costs related to allowable school operating purposes.

Our Special Revenue Funds showed a net decrease of approximately \$0.01. The School District completed some maintenance projects that were not completed the previous year.

Combined, The Debt Service Funds showed a fund balance decrease of approximately \$42,000. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. After the millage rate was set, there was a large Tax Tribunal settlement which effected revenue in the Debt Service Funds. Durant debt obligations are funded by annual state appropriations, and no fund balance exists at year end. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

Capital Projects Funds will be expended in the near future for such projects as technology upgrades, window replacements, roof repair and replacement, etc. The board is in the process of formulating a five-year facility improvement plan.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempt to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2006-2007 General Fund original budget. At the time the original budget is adopted, student enrollment and State Aid Foundation is not known. Budgeted revenues were decreased \$0.3 million due to a decrease in student enrollment and lower than anticipated Federal carryover dollars.

Budgeted expenditures were also decreased by \$0.6 million. This was due to a conscious effort by all staff to hold expenditures to a minimum. The amount of transfers to other funds established in the amended budget was \$.5 million and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007 the School District had \$10.3 million invested in a broad range of capital assets, including land, buildings, vehicles, furniture, and equipment. Cost amounts, before accumulated depreciation is deducted, are as follows:

	2007	2006
Land	\$ 20,000	\$ 20,000
Construction in progress	-0-	428,268
Buildings and building improvements	17,637,525	16,640,614
Buses and other vehicles	1,124,092	1,109,914
Furniture and equipment	1,895,533	1,981,127
Total Capital Assets	\$ 20,677,150	\$ 20,179,923

This years additions of \$497,227 included equipment, building renovations and buses. New debt of \$860,000 was issued to assist in funding these additions.

There are no major projects planned for the 2007-2008 fiscal year. We plan to continue to repair and replace some roofs and keep all of our buildings in the best shape possible.

Debt

At the end of this year, the School District had \$7.4 million in bonds outstanding, which is an increase of \$.4 million. Those bonds consisted of the following:

	2007	2006
General obligation bonds	\$7,449,929	\$ 7,089,929

The school district's general obligation bond rating is A+. The state limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issued "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit.

Economic factors and Next Year's Budgets and Rates

Our elected officials and administration consider many factors when setting the School District's 2008 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008 fiscal year is expected to be 25 percent and 75 percent of the February 2007 and September 2007 student counts, respectively. The 2007-2008 budget was adopted in June 2007, based on an estimate of students that will be enrolled in September 2007. Approximately 80 percent of total General Fund revenue is from the foundation allowance. Under state law, the School District cannot assess additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2007-2008 school year, we anticipate that the fall student count and related per pupil funding were validated, state law requires the School District to amend the budget if actual School District resources are not sufficient to fund original appropriations.

The Albion Public School system is on the move in the right direction. Our School District is a melting pot of success stories. Albion is a school district that has made Adequate Yearly Progress. Our MEAP scores are on the rise and our students are achieving on all levels. We strive hard to get parents involved and participate. Last year we opened a parent center in the Middle School. We have also opened a Wildcat Wellness Center at the High School. This enables us to assist parents and students with the academic as well as social challenges that they are currently facing.

We are strong supporters of professional development of our staff. 100% of our teaching staff is highly qualified in their field. Continuing education is always encouraged and supported from the highest level of our organization. We are a district that holds everyone accountable with high expectations.

Albion Public Schools' main goal is student achievement and performance. Our children are our most precious assets. Each one of our schools, Harrington Elementary, Washington Gardner Elementary,

Washington Gardner Middle, and Albion High School has a story of success. The following is just a brief snapshot of their individual stories.

Harrington Elementary School's high achieving student and innovative programs in and out of the classroom make it one of the crown jewels of the Albion Public Schools system. Over 60 percent of first graders and 76 percent of second graders were reading at or above grade level in June 2004. The school's staff is highly qualified. Three-quarters of the school's professional staff hold master's degrees or higher. The academic staff has a combined 526 years of experience as educators. Harrington maintains aggressive programs that focus on literacy and childhood development. During the Forks Reading Program last year, Harrington children read more than 8,000 books. The school cherishes its partnership with Albion College, Kids N Stuff, and Albion District Library. Harrington Elementary had an Annual Grandparents Day which is very well received and attended.

Washington Gardner Elementary – As a school housing grades 3-5, Washington Gardner Elementary focuses on the needs and progress of that age group in order to develop goals and strategies pertinent for third, fourth, and fifth graders. Washington Gardner Elementary made AYP for the past four years. To demonstrate belief in that high school performance is a shared responsibility by parents, the members of the Albion Public Schools' school improvement team has developed a school/parent council. The school has written, assessed, and taught curriculum aligned with the Michigan Curriculum Framework in all four core content areas. WGE also cherishes its partnership with Albion College, Kids N Stuff and Albion District Library.

Washington Gardner Middle School is a school on the move. It was one of four schools in Calhoun County selected through an application process to work with CISD School Improvement consultants. The school is a pioneer of the Integrated Academic Class, a program that weaves economics, language arts, and civics into one program. Two years ago the school introduced into the 6th grade the Big Block Concept. The concept fuses reading and English and is a great tool for boosting literacy. The school also has a 'Before School' program designed to give students extra help in areas of their needs. Students at Washington Gardner also participates in a mentoring program that matches middle school students with students at Albion College.

Albion High School's priority is and always will be improving our students' performance in the classroom and on standardized testing. They have also selected a series of goals designed to promote personal responsibility and responsible decision-making. There is strong parent involvement in athletic boosters, band boosters, and for extra curricular activities. Advanced Placement courses are currently being offered at the high school for high achieving students. Students also have the choice of attending some classes at Albion College, Kellogg Community College, Jackson Community College and the Calhoun County Math and Science Center through the dual enrollment program. Transportation is provided to the Calhoun County Math and Science Center and Kellogg Community College.

Currently, AHS is working under the Outcomes process in our continuing cycle of school improvement through the North Central Association accreditation service. Results from the standardized testing indicate areas of improvement and target goals are identified. These goals, in turn become part of our School Improvement Goals. We have also partnered with the Michigan Collation of Essential Schools for continued professional development of all staff.

The School District has experienced a decline in pupil enrollment since 1969. Enrollment has declined by approximately 100 students in each of the past five school years. While a portion of the decline is attributed to schools of choice, the majority of the reduction is due to the declining economic environment and loss of jobs in the Albion area.

Since the School District's revenue is heavily dependent on state funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation at a slight increase from last year. Unless some new revenue can be found, the new appropriation would not keep pace with inflation.

The School District currently has all labor contracts in place for the next fiscal year.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

ALBION PUBLIC SCHOOLS
Statement of Net Assets
June 30, 2007

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 2,581,363
Receivables	2,273,092
Prepays and other items	92,523
Capital assets, not being depreciated	20,000
Capital assets being depreciated, net	<u>10,293,436</u>
Total assets	<u><u>15,260,414</u></u>
Liabilities	
Accounts payable and accrued liabilities	1,206,371
Unearned revenue	96,764
Long-term liabilities:	
Due within one year	704,988
Due in more than one year	<u>7,830,979</u>
Total liabilities	<u><u>9,839,102</u></u>
Net assets	
Invested in capital assets, net of related debt	2,121,933
Restricted for debt service	49,340
Unrestricted	<u>3,250,039</u>
Total net assets	<u><u>\$ 5,421,312</u></u>

The accompanying notes are an integral part of these basic financial statements.

ALBION PUBLIC SCHOOLS
Statement of Activities
For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Instruction	\$ 7,540,596	\$ -	\$ 3,175,500	\$ (4,365,096)
Support services	4,968,611	-	18,126	(4,950,485)
Food services	526,922	121,799	389,078	(16,045)
Athletics	296,316	17,891	-	(278,425)
Community services	46,568	-	-	(46,568)
Interest on long-term debt	349,270	-	-	(349,270)
Unallocated depreciation	554,544	-	-	(554,544)
Total	<u>\$ 14,282,827</u>	<u>\$ 139,690</u>	<u>\$ 3,582,704</u>	<u>(10,560,433)</u>
General revenues:				
Property taxes				2,181,418
Unrestricted state aid				8,369,593
Grants and contributions not restricted to specific programs				102,077
Unrestricted investment earnings				<u>104,904</u>
Total general revenues				<u>10,757,992</u>
Change in net assets				197,559
Net assets, beginning of year, as restated				<u>5,223,753</u>
Net assets, end of year				<u>\$ 5,421,312</u>

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

ALBION PUBLIC SCHOOLS

Balance Sheet Governmental Funds June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Assets				
Cash and cash equivalents	\$ 1,201,358	\$ 1,272,712	\$ 107,293	\$ 2,581,363
Receivables	2,130,365	-	142,727	2,273,092
Due from other funds	35,326	100,000	44,940	180,266
Inventories	39,937	-	2,763	42,700
Prepaid items	49,823	-	-	49,823
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 3,456,809</u>	<u>\$ 1,372,712</u>	<u>\$ 297,723</u>	<u>\$ 5,127,244</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 117,062	\$ -	\$ -	\$ 117,062
Accrued payroll and other liabilities	938,171	-	-	938,171
Due to other funds	144,940	-	35,326	180,266
Due to other governments	87,117	-	4,458	91,575
Deferred revenue	130,905	-	139,929	270,834
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	1,418,195	-	179,713	1,597,908
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances				
Reserved for inventories	39,937	-	2,763	42,700
Reserved for prepaid items	49,823	-	-	49,823
Unreserved, designated for:				
Unemployment	100,000	-	-	100,000
Asbestos removal	100,000	-	-	100,000
Technology	300,000	-	-	300,000
Energy conservation/construction	100,000	-	-	100,000
Unreserved, undesignated, reported in:				
General Fund	1,348,854	-	-	1,348,854
Special revenue funds	-	-	23,205	23,205
Debt service funds	-	-	92,042	92,042
Capital project funds	-	1,372,712	-	1,372,712
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	2,038,614	1,372,712	118,010	3,529,336
	<hr/>	<hr/>	<hr/>	<hr/>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,456,809</u>	<u>\$ 1,372,712</u>	<u>\$ 297,723</u>	<u>\$ 5,127,244</u>

The accompanying notes are an integral part of these basic financial statements.

ALBION PUBLIC SCHOOLS
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
June 30, 2007

Fund balances - total governmental funds	\$ 3,529,336
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets not being depreciated	20,000
Add: capital assets being depreciated	20,657,150
Deduct: accumulated depreciation	(10,363,714)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenue for the Durant receivable from MDE	174,070
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds and notes payable	(8,137,252)
Deduct: early retirement payable	(204,535)
Deduct: accrued interest on bonds payable	(59,563)
Deduct: unamortized bond premiums	(194,180)

Net assets of governmental activities	<u><u>\$ 5,421,312</u></u>
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The accompanying notes are an integral part of these basic financial statements.

ALBION PUBLIC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Local sources	\$ 1,649,961	\$ 51,370	\$ 826,758	\$ 2,528,089
State sources	9,739,919	-	25,381	9,765,300
Federal sources	1,279,189	-	363,697	1,642,886
Interdistrict sources	578,252	-	-	578,252
Total revenue	<u>13,247,321</u>	<u>51,370</u>	<u>1,215,836</u>	<u>14,514,527</u>
Expenditures				
Current:				
Instruction	7,693,300	-	-	7,693,300
Support services	4,842,003	-	-	4,842,003
Community services	46,568	-	-	46,568
Food services	-	-	526,922	526,922
Athletics	-	-	296,316	296,316
Maintenance	-	-	146,952	146,952
Debt service:				
Principal	48,735	77,000	460,000	585,735
Interest and fiscal charges	4,732	59,548	269,088	333,368
Capital outlay	-	476,883	-	476,883
Total expenditures	<u>12,635,338</u>	<u>613,431</u>	<u>1,699,278</u>	<u>14,948,047</u>
Revenues over (under) expenditures	<u>611,983</u>	<u>(562,061)</u>	<u>(483,442)</u>	<u>(433,520)</u>
Other financing sources (uses)				
Issuance of long-term debt	-	860,000	-	860,000
Transfers in	-	100,000	428,425	528,425
Transfers out	(528,425)	-	-	(528,425)
Total other financing sources (uses)	<u>(528,425)</u>	<u>960,000</u>	<u>428,425</u>	<u>860,000</u>
Net change in fund balances	83,558	397,939	(55,017)	426,480
Fund balances, beginning of year	<u>1,955,056</u>	<u>974,773</u>	<u>173,027</u>	<u>3,102,856</u>
Fund balances, end of year	<u>\$ 2,038,614</u>	<u>\$ 1,372,712</u>	<u>\$ 118,010</u>	<u>\$ 3,529,336</u>

The accompanying notes are an integral part of these basic financial statements.

ALBION PUBLIC SCHOOLS
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$	426,480
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		497,227
Deduct: depreciation expense		(554,544)

The receipt of a long-term receivable represents revenue in the fund financial statements, but is reported as a reduction of the receivable in the statement of activities.

Deduct: payments received on long-term Durant receivables		(34,141)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities		585,735
Deduct: proceeds from issuance of long-term liabilities		(860,000)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct: increase in accrued interest payable on bonds		(29,772)
Add: amortization of bond premiums		13,870
Add: decrease in the accrual for early retirement payable		152,704

Change in net assets of governmental activities	\$	197,559
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The accompanying notes are an integral part of these basic financial statements.

ALBION PUBLIC SCHOOLS
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2007

	Budget			Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Local source	\$ 1,585,325	\$ 1,697,149	\$ 1,649,961	\$ (47,188)
State sources	9,594,016	9,790,026	9,739,919	(50,107)
Federal sources	1,375,198	1,351,706	1,279,189	(72,517)
Interdistrict sources	579,000	657,445	578,252	(79,193)
Total revenue	13,133,539	13,496,326	13,247,321	(249,005)
Expenditures				
Instruction				
Basic programs	5,814,730	5,877,274	5,837,511	(39,763)
Special education	1,201,166	1,279,021	1,223,433	(55,588)
Compensatory education	655,384	694,217	632,356	(61,861)
Total instruction	7,671,280	7,850,512	7,693,300	(157,212)
Supporting services				
Pupil	626,744	549,371	526,102	(23,269)
Instructional staff	551,571	692,042	626,196	(65,846)
General Administration	479,429	468,892	446,037	(22,855)
School administration	847,713	896,679	936,524	39,845
Business	242,669	207,980	174,214	(33,766)
Operations and maintenance	1,543,175	1,501,138	1,324,954	(176,184)
Transportation	686,962	677,187	610,536	(66,651)
Central support	213,504	195,186	197,440	2,254
Total supporting services	5,191,767	5,188,475	4,842,003	(346,472)
Community service	92,641	111,979	46,568	(65,411)
Payments to other public schools	54,865	-	-	-
Debt service				
Principal	-	48,735	48,735	-
Interest	-	4,732	4,732	-
Total debt service	-	53,467	53,467	-
Total expenditures	13,010,553	13,204,433	12,635,338	(569,095)
Revenues over expenditures	122,986	291,893	611,983	320,090
Other financing uses				
Transfers out	(509,046)	(539,046)	(528,425)	10,621
Net changes in fund balance	(386,060)	(247,153)	83,558	330,711
Fund balance, beginning of year	1,955,056	1,955,056	1,955,056	-
Fund balance, end of year	\$ 1,568,996	\$ 1,707,903	\$ 2,038,614	\$ 330,711

The accompanying notes are an integral part of these basic financial statements.

ALBION PUBLIC SCHOOLS
Statement of Fiduciary Assets and Liabilities
Agency Fund
June 30, 2007

Assets

Cash	\$ 137,794
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Liabilities

Due to student groups	\$ 134,270
Accounts payable	3,524

Total liabilities	\$ 137,794
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The accompanying notes are an integral part of these basic financial statements.

NOTES to the FINANCIAL STATEMENTS

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Albion Public Schools (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2007.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, grant revenue and interest revenue earned within the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities, major remodeling and improvements

Additionally, the District reports the following fund types:

Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes, where there is a need to determine the results of operations.

The *debt service fund* accounts for the retirement of long-term debt, which is financed through property taxes.

The *agency fund* accounts for assets held for other groups and organizations and is custodial in nature.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, liabilities and equity

1. Deposits and investments

The District's cash and investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

3. Inventory and prepaid items

Inventory is valued at the lower of cost (first-in, first-out) or market. Inventory in the General Fund and Food Service Funds consists of expendable supplies held for consumption. The cost is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital assets

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25 - 50
Vehicles	7-10
Equipment	5 - 25

5. *Compensated absences*

It is the District's policy to not permit employees to accumulate earned but unused vacation and sick pay benefits.

6. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of the net assets. In accordance with GASB No. 34, the financial statements do not reflect future debt taxes, which will service the bonded long-term debt obligations.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The General and Special Revenue funds are under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budgets for the General and Special Revenue Funds are adopted on a functional basis.

B. Excess of expenditures over appropriations

During the year ended June 30, 2007, the District incurred expenditures in excess of the amount appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Excess Expenditures</u>
General Fund:			
Supporting services:			
School administration	\$ 896,679	\$ 936,524	\$ 39,845
Central support	195,186	197,440	2,254

C. Deficit Fund Equity

At year end, the Food Services nonmajor special revenue fund had an unreserved, undesignated fund deficit of \$21,735.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and cash equivalents as shown on the Statement of Net Assets and Statement of Fiduciary Net Asset follows:

Statement of Net Assets:

Cash and cash equivalents	\$ 2,581,363
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Statement of Fiduciary Net Assets:

Agency Fund:

Cash and cash equivalents	<u>137,794</u>
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\$ 2,719,157

Bank deposits	\$ 29,227
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Investments in securities, mutual funds, and similar vehicles	<u>2,689,930</u>
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\$ 2,719,157

Statutory Authority

State statutes authorize the District to deposit and invest in:

- Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.
- Certificates of deposit insured by a State or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this State.
- Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

The District's investment policy allows for all of these types of investments.

The District chooses to disclose its investments by specifically identifying each. At June 30, 2007, the District had the following investments.

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>
Michigan Liquid Asset Fund	n/a	<u>\$ 2,689,930</u>	S&P – AAAM

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial credit risk. As of year end, all of the District's bank balance of \$83,910 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the District does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk as these investments are uncategorized as to risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

B. Receivables

Receivables as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>	<u>Amounts Not Expected to be Collected Within One Year</u>
Receivables:				
Accounts	\$ 17,926	\$ 2,798	\$ 20,724	\$ -
Intergovernmental	2,078,298	-	2,078,298	-
Durant settlement	<u>34,141</u>	<u>139,929</u>	<u>174,070</u>	<u>139,929</u>
	<u>\$ 2,130,365</u>	<u>\$ 142,727</u>	<u>\$ 2,273,092</u>	<u>\$ 139,929</u>

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended June 30, 2007 was as follows:

	Beginning Balance *	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Construction in progress	428,268	-	428,268	-
Total capital assets not being depreciated	448,268	-	428,268	20,000
Capital assets being depreciated:				
Buildings and improvements	16,726,208	911,317	-	17,637,525
Vehicles	1,109,914	14,178	-	1,124,092
Equipment	1,895,533	-	-	1,895,533
Total capital assets being depreciated	19,731,655	925,495	-	20,657,150
Less accumulated depreciation for:				
Buildings and improvements	7,364,200	468,961	-	7,833,161
Vehicles	748,734	57,239	-	805,973
Equipment	1,696,236	28,344	-	1,724,580
Total accumulated depreciation	9,809,170	554,544	-	10,363,714
Total capital assets being depreciated, net	9,922,485	370,951	-	10,293,436
Governmental activities capital assets, net	\$10,370,753	\$ 370,951	\$ 428,268	\$10,313,436

* - as restated, see note IV.D.

Depreciation expense of \$554,544 was charged to function "unallocated depreciation" and was not allocated to other functions.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

D. Payables

Accounts payable and accrued liabilities as of year end for the District's individual major funds and nonmajor funds in the aggregate, are as follows:

	<u>General</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Fund Financial Statements:			
Accounts payable	\$ 117,062	\$ -	\$ 117,062
Accrued payroll and other liabilities	938,171	-	938,171
Due to other governments	<u>87,117</u>	<u>4,458</u>	<u>91,575</u>
	<u>\$ 1,142,350</u>	<u>\$ 4,458</u>	<u>1,146,808</u>
District-Wide Financial Statements:			
Accrued interest on long-term debt			<u>59,563</u>
			<u>\$ 1,206,371</u>

E. Interfund receivables, payables and transfers

At June 30, 2007, interfund receivables and payables consisted of the following:

	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 35,326	\$ 144,940
Capital Projects Fund	100,000	-
Nonmajor governmental funds	<u>44,940</u>	<u>35,326</u>
	<u>\$ 180,266</u>	<u>\$ 180,266</u>

The District reports interfund balances between its funds. The sum of all balances presented in the table above agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for the governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

For the year ended June 30, 2007, the General Fund transferred \$100,000 to the Capital Projects Fund and \$428,425 to nonmajor governmental funds to subsidize the athletic programs and maintenance operations.

F. Long-term debt

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2007:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 7,089,929	\$ 860,000	\$ 500,000	\$ 7,449,929	\$ 500,000
Other installment debt	773,058	-	85,735	687,323	91,345
Early retirement payable	357,239	-	152,704	204,535	99,773
Unamortized bond premium	<u>208,050</u>	<u>-</u>	<u>13,870</u>	<u>194,180</u>	<u>13,870</u>
	<u>\$ 8,428,276</u>	<u>\$ 860,000</u>	<u>\$ 752,309</u>	<u>\$ 8,535,967</u>	<u>\$ 704,988</u>

Long-term debt at June 30, 2007, consists of the following:

General obligation bonds:

\$7,400,000 2005 Bonds, due in annual installments of \$450,000 to \$465,000 through May 1, 2021, interest at 2.50% - 4.75%

\$ 6,490,000

\$860,000 2006 Energy Conservation Bonds, due in annual installments of \$40,000 to \$80,000 through May 1, 2021; interest at 4.35%

820,000

* \$341,406 1998 Durant School Improvement Bonds, due in annual installments of \$17,308 to \$22,884 through 2013; interest at 4.8%

139,929

Total general obligation bonds payable

\$ 7,449,929

* The Durant School Improvement Bonds are serviced from funds made available to Michigan School Districts by an annual appropriation by the Michigan State Legislature. If the Legislature does not appropriate the funding required, the District is not liable to pay the debt service.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

Other installment debt:

\$181,050 2006 Notes Payable for the purchase of school buses
due in annual installments of \$36,210;
through July 15, 2010; interest at 3.95% \$ 127,347

\$69,027 2006 Note Payable for the purchase of school buses,
due in annual installments of \$17,257 through July 3, 2009;
interest at 7.9% 46,976

\$550,000 2006 Notes Payable to finance school improvements,
due in annual installments of \$15,000 to \$35,000;
through June 1, 2016 interest at 4.89% 513,000

Total other installment debt \$ 687,323

During the year ended June 30, 2006, the District entered into early retirement incentive program contracts in the amount of \$374,077. Program payments are due in annual installments of \$110,000 through August 1, 2008. The present value of the remaining balance on such contracts at June 30, 2007 was \$204,535.

Annual debt service requirements to maturity for general obligation bonds and other installment debt are as follows:

	Principal	Interest	Total
2008	\$ 591,345	\$ 325,527	\$ 916,872
2009	619,649	310,335	929,984
2010	660,309	301,443	961,752
2011	619,221	262,427	881,648
2012	593,844	236,353	830,197
2013-2017	2,897,884	799,268	3,697,152
2018-2021	2,155,000	220,590	2,375,590
	<u>\$ 8,137,252</u>	<u>\$ 2,455,943</u>	<u>\$ 10,593,195</u>

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

B. Contingent Liabilities

The District is a defendant in a grievance filed by a member of one of its bargaining units. Although the outcome of this grievance is not presently determinable, it is the opinion of the District's counsel that resolution of this matter will not have a material adverse effect on the financial condition of the District.

C. Defined benefit pension plan

Plan Description

The Albion Public Schools contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

ALBION PUBLIC SCHOOLS

Notes to the Financial Statements

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The Albion Public Schools is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 17.74% of annual covered payroll. The contribution requirements of plan members and the Albion Public Schools are established by Michigan State statute and may be amended only by action of the State Legislature. The School District's contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were \$1,155,432, \$1,420,000, and \$1,460,000, respectively, equal to the required contributions for each year.

During the year ended June 30, 2007, the State of Michigan Office of Retirement Systems issued a credit to all school districts participating in MPSERS. The District's share of this credit was \$204,674.

Other Postemployment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Restatements

Beginning net assets of governmental activities were increased by \$622,360 – \$208,211 to properly account for unavailable Durant revenue and \$414,149 to properly account for accumulated depreciation.

* * * * *

FUND STATEMENTS

ALBION PUBLIC SCHOOLS
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007

		<u>Special Revenue Funds</u>		
		<u>Food Services</u>	<u>Athletics</u>	<u>Maintenance</u>
<u>ASSETS</u>				
Assets				
Cash and investments	\$	2,833	\$ -	\$ -
Accounts receivable		2,798	-	-
Due from other funds		-	-	44,940
Inventories		2,763	-	-
		<u> </u>	<u> </u>	<u> </u>
TOTAL ASSETS	\$	8,394	\$ -	\$ 44,940
		<u> </u>	<u> </u>	<u> </u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Due to other funds	\$	27,366	\$ -	\$ -
Due to other governments		-	-	-
Deferred revenue		-	-	-
		<u> </u>	<u> </u>	<u> </u>
Total liabilities		27,366	-	-
		<u> </u>	<u> </u>	<u> </u>
Fund Balances				
Reserved for inventories		2,763	-	-
Unreserved, undesignated (deficit)		(21,735)	-	44,940
		<u> </u>	<u> </u>	<u> </u>
Total fund balances		(18,972)	-	44,940
		<u> </u>	<u> </u>	<u> </u>
TOTAL LIABILITIES AND FUND BALANCES	\$	8,394	\$ -	\$ 44,940
		<u> </u>	<u> </u>	<u> </u>

Debt Service Fund		Total Nonmajor Governmental Funds
Durant	2005 Bond Issue	
\$ -	\$ 104,460	\$ 107,293
139,929	-	142,727
-	-	44,940
-	-	2,763
<u>\$ 139,929</u>	<u>\$ 104,460</u>	<u>\$ 297,723</u>

\$ -	\$ 7,960	\$ 35,326
-	4,458	4,458
139,929	-	139,929
<u>139,929</u>	<u>12,418</u>	<u>179,713</u>
-	-	2,763
-	92,042	115,247
-	92,042	118,010
<u>\$ 139,929</u>	<u>\$ 104,460</u>	<u>\$ 297,723</u>

ALBION PUBLIC SCHOOLS
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2007

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Athletics</u>	<u>Maintenance</u>
Revenues			
Local	\$ 121,799	\$ 17,891	\$ -
State	25,381	-	-
Federal	363,697	-	-
	<hr/>	<hr/>	<hr/>
Total revenue	510,877	17,891	-
	<hr/>	<hr/>	<hr/>
Expenditures			
Food services	526,922	-	-
Athletics	-	296,316	-
Maintenance	-	-	146,952
Debt service:			
Principal	-	-	-
Interest and fiscal charges	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	526,922	296,316	146,952
	<hr/>	<hr/>	<hr/>
Revenues over (under) expenditures	(16,045)	(278,425)	(146,952)
	<hr/>	<hr/>	<hr/>
Other financing sources (uses)			
Transfers in	-	278,425	150,000
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(16,045)	-	3,048
	<hr/>	<hr/>	<hr/>
Fund balances (deficit), beginning of year	(2,927)	-	41,892
	<hr/>	<hr/>	<hr/>
Fund balances (deficit), end of year	<u>\$ (18,972)</u>	<u>\$ -</u>	<u>\$ 44,940</u>

Debt Service Fund		Total
Durant	2005 Bond Issue	Nonmajor Governmental Funds
\$ -	\$ 687,068	\$ 826,758
-	-	25,381
-	-	363,697
-	687,068	1,215,836
-	-	526,922
-	-	296,316
-	-	146,952
-	460,000	460,000
-	269,088	269,088
-	729,088	1,699,278
-	(42,020)	(483,442)
-	-	428,425
-	(42,020)	(55,017)
-	134,062	173,027
\$ -	\$ 92,042	\$ 118,010

APPENDIX

Albion Public Schools
Schedule of Expenditures of Federal Awards
For Fiscal Year Ended June 30, 2007

Program Title/Project Number Subrecipient Name	Grantor Number	CFDA Number	Approved Awards Amount	Accrued (Deferred) Revenue at July 1, 2006	Federal Funds/ Payments In-Kind Received	Expenditures	Accrued (Deferred) Revenue at June 30, 2007
U.S. Department of Agriculture							
Direct Program:							
Food Distribution							
Entitlement Commodities		10.550	\$ 20,117	\$ -	\$ 20,117	\$ 20,117	\$ -
Bonus Commodities		10.550	114	-	114	114	-
				-	20,231	20,231	-
Passed through Michigan Department of Education:							
National School Breakfast	061970	10.553	10,147	-	10,147	10,147	-
National School Breakfast	071970	10.553	80,962	-	80,962	80,962	-
				-	91,109	91,109	-
National School Lunch Sec. 4 - All Lunches	061950	10.555	3,796	-	3,796	3,796	-
National School Lunch Sec. 4 - All Lunches	071950	10.555	27,653	-	27,653	27,653	-
National School Lunch Sec. 11- Free & Reduced	061960	10.555	26,673	-	26,673	26,673	-
National School Lunch Sec. 11- Free & Reduced	071960	10.555	194,235	-	194,235	194,235	-
				-	252,357	252,357	-
				-	363,697	363,697	-
Total U.S. Department of Agriculture							
U.S. Department of Education							
Passed through Michigan Department of Education:							
Title I - 2005/2006 Regular	061530-0506	84.010	857,740	80,023	80,023	-	-
Title I - 2005/2006 Carryover	061550-0506	84.010	45,000	8,180	8,180	-	-
Title I - 2006/2007 Regular	071530-0607	84.010	764,093	-	566,538	716,589	150,051
				88,203	654,741	716,589	150,051
Title II, Part D - 2005/2006 Carryover	064290-0607	84.318	2,167	-	2,167	2,167	-
Title II, Part D - 2006/2007 Regular	074290-0607	84.318	8,047	324	8,371	8,047	-
				324	10,538	10,214	-
Title II, Part A - 2005/2006 Regular	060520-0506	84.367	218,734	12,919	10,752	-	2,167
Title II, Part A - 2005/2006 Carryover	060520-0607	84.367	59,300	-	59,300	59,300	-
Title II, Part A - 2006/2007 Regular	070520-0607	84.367	213,395	-	113,516	173,312	59,796
				12,919	183,568	232,612	61,963
Title V - 2005/2006 Regular	060250-0506	84.298	9,796	208	208	-	-
Title V - 2005/2006 Carryover	060250-0607	84.298	891	-	891	891	-
Title V - 2006/2007 Regular	070250-0907	84.298	4,370	-	4,370	4,370	-
				208	5,469	5,261	-
Comprehensive School Reform Demonstration	051870-0506	84.332A	268,819	-	30,016	30,016	-
Comprehensive School Reform Demonstration	061870-0607	84.332A	281,000	-	279,951	260,926	(19,025)
				-	309,967	290,942	(19,025)
Emergency Impact Aid - Hurricane Katrina Grant	064120-1	84.938	1,917	-	1,917	1,917	-
Total passed through the Michigan Department of Education				101,654	1,166,200	1,257,535	192,989
Passed through Calhoun County Intermediate School District:							
Drug Free Schools	0426000CS03	84.184	71,458	1,415	1,415	-	-
Drug Free Schools	0628600506	84.186A	3,573	-	3,573	3,573	-
Drug Free Schools	0728600607	84.186A	11,415	-	8,912	8,912	-
				-	12,485	12,485	-
Technology Preparation - 2006/2007	073540	84.243	1,000	-	1,000	1,000	-
Technology Literacy Grant - IMMAP	064240-1	84.318	7,369	-	7,369	7,369	-
Technology Literacy Grant - Data 4 SS	064260	84.318	800	-	800	800	-
				-	8,169	8,169	-
Total passed through Calhoun County Intermediate School District				1,415	23,069	21,654	-
Total U.S. Department of Education							
				103,069	1,189,269	1,279,189	192,989
Total Federal Programs							
				\$ 103,069	\$ 1,552,966	\$ 1,642,886	\$ 192,989

1. This schedule is presented on the accrual basis of accounting.
2. Expenditures in this schedule are in agreement with amounts reported in the financial statements and the financial reports submitted with the Michigan Department of Education.
3. The amounts reported on the Recipient Entitlement Balance (PAL) Report agree with this schedule for USDA donated food commodities.
4. The amounts reported on the R7120 (Grants Section Auditor's Report) reconcile with this schedule.
5. Expenditures include spoilage or pilferage.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

November 13, 2007

Board of Education
Albion Public Schools
Albion, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of **ALBION PUBLIC SCHOOLS**, as of and for the year ended June 30, 2007, and have issued our report thereon dated November 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Albion Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Albion Public Schools' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Albion Public Schools' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Albion Public Schools' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Albion Public Schools' financial statements that is more than inconsequential will not be prevented or detected by Albion Public Schools' internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Albion Public Schools' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2007-1 and 2007-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Albion Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Albion Public Schools in a separate letter dated November 13, 2007.

Albion Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Albion Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

November 13, 2007

Board of Education
Albion Public Schools
Albion, Michigan

Compliance

We have audited the compliance of **Albion Public Schools** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Albion Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Albion Public Schools' management. Our responsibility is to express an opinion on Albion Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Albion Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Albion Public Schools' compliance with those requirements.

In our opinion, Albion Public Schools complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Albion Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Albion Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Entity's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control. We did not consider the finding referred to above to be a material weakness.

Albion Public Schools' responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Albion Public Schools' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, the Board of Education, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

ALBION PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

 X yes no

Significant deficiencies identified
not considered to be material weaknesses?

 yes X none reported

Noncompliance material to financial statements
noted?

 yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

 yes X no

Significant deficiencies identified
not considered to be material weaknesses?

 X yes none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

 X yes no

ALBION PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	Child Nutrition Cluster
84.332	Comprehensive School Reform

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2007-1 Preparation of Financial Statements in Accordance with GAAP

Criteria: All school districts are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting)

Condition: As is the case with many smaller and medium-sized entities, the district has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the District's internal controls.

Cause: Due to the lack of knowledge, expertise and education relative to preparing GAAP financial statements possessed by the finance department, management has made the decision that it is in their best interest to outsource the preparation of its annual financial statements to the auditors rather than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

ALBION PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS (Concluded)

View of Responsible

Officials: The District has evaluated the benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the district to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

Finding 2007-2 Audit Adjustments

Criteria: The District is responsible for the reconciliation of all general ledger accounts to their proper underlying balances for the purpose of creating a reasonably adjusted trial balance, from which the basic financial statements are derived.

Condition: Significant adjustments were necessary to agree key accounts to their proper underlying balances, including material prior period adjustments.

Cause: Internal controls did not detect all adjustments necessary to properly record year-end adjustments in the current year or the prior year.

Effect: As a result of this condition, the District is not able to produce accurate financial information. In addition, prior period financial statements contained material misstatements.

View of Responsible

Officials: In prior years, management relied on the prior auditors to assist in the preparation of the financial statements, including capital asset balances. The amounts reported as accumulated depreciation in the prior year did not agree to the records provided to the District by their asset management consultants. Management has implemented procedures to ensure that all adjustments (including government-wide adjustments) are reviewed and verified by a responsible official.

ALBION PUBLIC SCHOOLS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2007

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2007-3 Federal Award Cash Management

Program:	CFDA 84.332 – Comprehensive School Reform (CSR)
Criteria:	State grant agreements prohibit districts from requesting draws in excess of the estimated cash needs for the next three calendar days.
Condition:	The District requested and received reimbursements during the year in excess of federal expenditures as evidenced by the deferred revenue balance at year end.
Cause:	Reimbursement requests were made using inaccurate financial information.
Effect:	As a result of this condition, the district accumulated cash in excess of cash needs as evidenced by the amount recorded as deferred revenue on the schedule of expenditures federal awards in the amount of \$19,025.
Recommendation:	We recommend that the District establish procedures to ensure that cash draws do not exceed estimated cash for three calendar days.
View of Responsible Officials:	The CSR grant no longer exists. The Michigan Department of Education and the Michigan Coalition of Essential Schools were calling the business office on a weekly basis insisting that the District drawdown funds. As a result, the District requested funds based on incomplete financial information. This will not happen in the future as management will ensure that requests are only made based on accurate financial information and this grant no longer exists for the District.

SECTION IV – PRIOR YEAR FINDINGS

No matters were reported.

* * * * *